



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 4, 1977

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer

Civil Service Commission
Department of Defense
Department of Health, Education, and Welfare
Department of Labor
Department of the Treasury
Department of State
Central Intelligence Agency ✓
District of Columbia Government
Administrative Office of the U.S. Courts

SUBJECT: Draft Administration proposal that cost-of-living adjustments under Federal employee (military and civilian) retirement and disability programs be indexed in the same manner as social security.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than C.O.B. January 23, 1978.

Hilda Schreiber Questions should be referred to Barbara Torrey (395-4547) or to (395-4650) or to Phoebe Felk (395-4702), the legislative analyst in this office.

Naomi R. Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

Specifications for a Draft Administration Proposal to make the Cost-of-Living Adjustment for Federal Retirement and Disability Benefits the Same as the Social Security System's Cost-of-Living Adjustment

Proposal: That Federal employees (military and civilian) retirement and disability programs linked to the Consumer Price Index (CPI) be indexed in the same manner as social security.

Virtually all Federal retirement and disability programs provide for automatic cost-of-living increases to maintain the purchasing power of benefit payments. Most such programs, including civil service and military retirement, have two cost-of-living increases each year, while social security and railroad retirement have only one.

Federal retirement and disability programs should be treated consistently when there is no extenuating circumstance that justifies an exception. The principle of consistency, however, could be applied in two directions; making the adjustment for Federal retirees similar to social security and railroad retirement or the reverse.

Three arguments, in addition to the budgetary savings, would support shifting to an annual increase for all retirement programs:

-- Comparability increases in pay for active Federal employees, which implicitly include a cost-of-living component, are limited to only once per year.

-- Automatic increases in private and State and local pensions, to the extent such increases occur, are generally limited to only once per year.

-- The civil service retirement system and the social security system are both underfunded; if a uniform system of indexation is desired, it should reduce this funding problem, not increase it.

Ultimately, it is difficult for Federal employees to justify why they should be treated more generously than the rest of the population.

Affected Programs

Civil Service

Military

Foreign Service

CIA and

Federal Employees' Compensation Act

The Proposed Cost-of-Living Adjustment

The following is a description of how the proposed cost-of-living adjustment would work:

-- Benefits would be increased whenever the average CPI in the first quarter of the calendar year (the computation quarter) exceeds the average CPI in the first quarter of the

previous calendar year (the base quarter) by at least 3%. The benefit increase would equal the percentage increase in the CPI over this period.

-- The benefit increase would be effective June 1 and payable July 1 of the same year as the computation quarter.

-- If the Congress were to enact a general (i.e., non-CPI) increase in benefits, the effective date of the legislative increase would become the base quarter. There can be no subsequent computation quarter in any calendar year in which a general benefit increase is enacted or becomes effective.

The Transition from the Present System
to the Proposed System

The assumed effective date for this proposal would be the June 1, 1979, benefit increase.

The Federal retirement and disability programs will make their scheduled cost-of-living adjustment, effective in March of 1979. (FECA has a different adjustment mechanism and therefore is treated separately below.) The March 1979 increase will be based on the CPI increase from July 1978 to December 1978.

The June 1979 adjustment for Federal retirees will be equal to the increase in the CPI from December 1978 (the last base period under the semi-annual adjustment mechanism) to the first quarter of calendar year 1979. Subsequent June increases will be based on the existing social security formula specified earlier.

Table 1 contains the current CPI assumptions. Table 2 provides examples of the cost-of-living adjustments for the Federal employee (civilian and military) retirement and disability programs, using the current economic assumptions, under both present law and the proposed change in law.

The Transition from the Present System
to the Proposed System for the
Federal Employees' Compensation Act

The assumed effective date for this proposal would be the June 1, 1979, benefit increase.

The Federal Employee Compensation program (FECA) will make its scheduled cost-of-living adjustment, effective in January of 1979. The January 1979 increase will be based on the CPI increase from April 1978 to December 1978.

The June 1979 adjustment for FECA recipients will be equal to the increase in the CPI from December 1978 (the last base period under the semi-annual adjustment mechanism) to the first quarter of calendar year 1979. Subsequent June increases will be based on the existing social security formula specified earlier.

Table 3 is an example of the cost-of-living adjustments for the FECA program using current economic assumptions under both the current and proposed law.

TABLE 1

CONSUMER PRICE INDEX					CURRENT	ASSUMPTIONS		
MONTHLY CPI								
MO/YR	1976	1977	1978	1979	1980	1981	1982	1983
JAN	166.70	175.30	186.81	198.16	209.93	221.29	232.17*	242.43
FEB	167.10	177.10	187.80	199.25	211.01	222.35	233.19	243.39
MAR	167.50	178.20	188.68	200.23	211.97	223.28	234.08	244.22
APR	168.20	179.60	189.64*	201.21	212.94	224.21*	234.96	245.04
MAY	169.20	180.60	190.50	202.07	213.79	225.01	235.70	245.72
JUNE	170.10	181.80*	191.67	203.27	215.00*	226.19	236.84	246.81
JULY	171.10	182.60	192.72	204.38	216.05	227.21	237.81	247.72
AUG	171.90	183.30	193.77	205.49	217.10	228.23	238.78	248.63
SEP	172.60	184.00	194.82	206.60*	218.15	229.24	239.75	249.54
OCT	173.30*	184.50	195.91	207.72	219.24	230.29	240.75	250.46
NOV	173.80	185.40	196.89	208.70	220.18	231.19	241.59*	251.26
DEC	174.30	186.35	197.63*	209.44	220.87	231.82	242.16	251.74
QUARTERLY CPI								
QTR/YR	1976	1977	1978	1979	1980	1981	1982	1983
I	167.10	176.87	187.76	199.22	210.97	222.31	233.15	243.35
II	169.17	180.67	190.60	202.18	213.91	225.14	235.83	245.86
III	171.87	183.30	193.77	205.49	217.10	228.23	238.78	248.63
IV	173.80	185.42	196.81	208.62	220.10	231.10	241.50	251.16

December 22, 1977

	Social Security 1/	Military and Civil Service Retirement (effective date)	
		Current Law	Proposed Law
<u>1977</u>			
January.....			
March.....		4.8%	4.8%
July.....	5.9%		
September.....		4.3	4.3
<u>1978</u>			
January.....			
March.....		2.5	2.5
July.....	6.2		0.8
September.....		2.9	
<u>1979</u>			
January.....			
March.....		3.1	
July.....	6.1		6.1
September.....		2.9	
<u>1980</u>			
January.....			
March.....		3.0	
July.....	5.9		5.9
September.....		2.7	
<u>1981</u>			
January.....			
March.....		2.7	
July.....	5.4		5.4
September.....		2.4	
<u>1982</u>			
January.....			
March.....		2.5	
July.....	4.9		4.9
September.....		2.2	
<u>1983</u>			
January.....			
March.....		2.2	
July.....	4.4		4.4
September.....		1.9	

1/ Effective date is June of each year.

TABLE 3

Cost-of-Living Increases for FECA

<u>Effective Date</u>	(%) <u>Current Law</u>	(%) <u>Proposed Law</u>
July 1977	4.9	--
May 1978	4.3	4.3
January 1979	4.2	4.2 ^{1/}
June 1979	--	0.8 ^{1/}
October 1979	4.5	--
June 1980	--	5.9
July 1980	4.1	--
June 1981	--	5.4
May 1981	4.3	--
June 1982	--	4.9
February 1982	3.6	--
June 1983	--	4.4
December 1982	4.1	--

^{1/} In CPI from December 1978 to first quarter of CY 1979.